

**Commonwealth of Kentucky
Kentucky Department of Revenue**

**Handbook for Electronic Filers of
Individual Income Tax Returns**

KY PUBLICATION 1345



**Tax Year 2014
Processing Year 2015**

Version 1.0

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REVISION LOG

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1.0	9/22/2014	Finalized
1.0	9/29/2014	Posted to Electronic Filing Information website

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The Kentucky Department of Revenue (KDOR) joined with the Internal Revenue Service (IRS) in 1994 to offer electronic filing of federal and state individual income tax returns. The Federal/State Electronic Filing Program allows taxpayers to file both their federal and state returns electronically. This program is an effort to provide “one-stop shopping” for all tax preparation and filing. Taxpayers, tax practitioners and KDOR benefit from electronic filing.

Kentucky Publication 1345, Kentucky Handbook for Electronic Filers of Individual Income Tax Returns, is to be used in conjunction with IRS Publication 1345. Because most functions in the Federal/State Electronic Filing Program are the same, this handbook highlights the special features unique to Kentucky. The information contained herein explains the program, including changes from last year.

Section 1 - What’s New for Tax Year 2014?

Code Update

HB 445 updates the definition of “Internal Revenue Code” to mean the Internal Revenue Code (IRC) in effect on Dec. 31, 2013, exclusive of any amendments made to the IRC subsequent to that date, other than amendments that extend provisions in effect on Dec. 31, 2013, that would otherwise terminate, and as modified by KRS 141.0101.

The itemized deductions limitation established in 26 U.S.C. Sec. 68 shall be determined using the applicable amount from 26 U.S.C. Sec. 68 as it existed on Dec. 31, 2006. This means the method used to calculate the limitation on itemized deductions used in 2013 applies equally to tax years 2014 and beyond. The applicable amount (as adjusted for inflation) for a taxable year beginning in calendar year 2013 is \$178,150 (\$89,075 in the case of a separate return by a married individual). The applicable amount (as adjusted for inflation) for taxable years beginning in calendar year 2014 is \$181,150 (\$90,575 in the case of a separate return by a married individual).

Depreciation calculations for Kentucky did not change. HB 445 provides, “For property placed in service after September 10, 2001, only the depreciation and expenses deductions allowed under Sections 168 and 179 of the Internal Revenue Code in effect on December 31, 2001, exclusive of any amendments made subsequent to that date, shall be allowed.” Therefore the taxpayer will continue to make adjustments on their tax returns for the differences in depreciation allowed for Federal taxable income and Kentucky taxable income.

Personal Tax Credits

KRS 141.020 was amended to provide that for taxable years beginning on or after Jan. 1, 2014, the individual personal tax credits as provided by KRS 141.020(3) shall be reduced as follows: (i) from \$20 to \$10 for an unmarried individual; (ii) from \$20 to \$10 for a married individual filing a separate return, from \$20 to \$10 for the spouse of the taxpayer filing a separate return, and from \$40 to \$20 for married persons filing a joint return; (iii) from \$20 to \$10 for each dependent; and (iv) from \$20 to \$10 for an estate.

This amendment did not affect the individual personal tax credits for the elderly, blind, National Guard, or trusts.

As a result of the amendment, the check boxes in the Personal tax credits are worth \$10 each instead of \$20. A new checkbox has been added to lines 1a and 1b of Section B, Form 740 and Form 740-NP for the Kentucky National Guard personal credit. The regular tax credit has one check box. The 65 or over and the blind credit each have four boxes. The National Guard credit has two boxes. The amounts on lines 3A and 3B, Section B, Form 740 and are multiplied by \$10 in order to determine the total personal tax credit on line 4A and 4B, Section B, Form 740. The amount on line 3, Section B, Form 740-NP are multiplied by \$10 in order to determine the total personal tax credit on line 4, Section B, Form 740-NP.

Food Donation Tax Credit

The Food Donation Tax Credit applies to taxable years beginning on or after Jan. 1, 2014, but before Jan. 1, 2018. During that time, a qualified taxpayer will be allowed a nonrefundable credit against their Individual Income Tax in an amount equal to 10 percent of the value of donated edible agriculture products to a nonprofit organization operating a food program in Kentucky. This organization must be exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. A qualified taxpayer means a person responsible for and deriving income from: growing fruits, vegetables, or other edible agriculture products; or raising beef, poultry, pork, fish, or other edible agriculture products. Edible agriculture products means fruits, vegetables, beef, poultry, pork, fish, or any other edible product raised or grown in Kentucky that is intended for and fit for human consumption. For more information refer to KRS 141.0205.

The food donation credit has been added to line 22, Section A of Form 740 and Form 740-NP. The total business incentive credits line is now line 23 instead of line 22.

Standard Deduction

The standard deduction increased from \$2,360 to \$2,400.

Family Size Tax Credit

This credit provides benefit to individuals and families at incomes up to 133 percent of the threshold amount. The threshold for a family size of one is \$11,670, \$15,730 for a family of two, \$19,790 for a family of three and \$23,850 for a family of four or more.

Children of divorced or separated parents can be claimed for the FSTC based on where they resided the majority of the year, not necessarily the parent that claimed the child as a deduction.

Determining the Size of Family Unit:

- 1 - An individual either single or married living apart from his or her spouse for the entire year
- 2 - An individual with one dependent child or a married couple

3 - An individual with two dependent children or a married couple with one dependent child

4 or more - An individual with three dependent children or a married couple with two dependent children

For purposes of computing the family size tax credit, the maximum family size is 4.

The following table lists the percentage used in calculating the FSTC based on family size and modified gross income for tax year 2014. The MGI amounts in the family size tax table changed for TY2014.

Family Size	One		Two		Three		Four or More		Credit
If MGI...	is over	is not over	is over	is not over	is over	is not over	is over	is not over	Percentage is
TY 2 0 1 4		11,670		15,730		19,790		23,850	100%
	11,670	12,137	15,730	16,359	19,790	20,582	23,850	24,804	90%
	12,137	12,604	16,359	16,988	20,582	21,373	24,804	25,758	80%
	12,604	13,070	16,988	17,618	21,373	22,165	25,758	26,712	70%
	13,070	13,537	17,618	18,247	22,165	22,956	26,712	27,666	60%
	13,537	14,004	18,247	18,876	22,956	23,748	27,666	28,620	50%
	14,004	14,471	18,876	19,505	23,748	24,540	28,620	29,574	40%
	14,471	14,821	19,505	19,977	24,540	25,133	29,574	30,290	30%
	14,821	15,171	19,977	20,449	25,133	25,727	30,290	31,005	20%
	15,171	15,521	20,449	20,921	25,727	26,321	31,005	31,721	10%
	15,521	-	20,921	-	26,321	-	31,721	-	0%

Schedule A Changes

Schedule A (740) - Medical and Dental Expenses

The calculation percentage has changed for tax year 2014 from 7.5% to 10% unless either taxpayer was born before January 2, 1950. It remains at 7.5% if the age exception applies.

The addition of the Kentucky AGI field on line 2 of Schedule A which resulted in a renumbering of lines below it. The total medical and dental is now listed on line 4, Schedule A.

Schedule A (740-NP) – Medical and Dental Expenses

A line has been added to the Medical and Dental expenses to list the amount of Federal Adjusted Gross Income for convenience when calculating the medical and dental expenses and job expenses and miscellaneous deductions limitation. The calculation percentage has changed for tax year 2014 from 7.5% to 10% unless either taxpayer was born before January 2, 1950. It remains at 7.5% if the age exception applies.

The Federal AGI is listed on line 2 of Schedule A (740-NP) which resulted in a renumbering of lines below it. The total medical and dental is now listed on line 4, Schedule A (740-NP).

Schedule A (740) – Casualty and Theft Losses

The amount of casualty and theft losses is no longer limited to 10% of the Kentucky Adjusted Gross Income. The calculation has been removed from Schedule A resulting in the removal of lines 21 and 22. The casualty and theft losses are now reported on line 21.

Schedule A (740-NP) – Casualty and Theft Losses

The amount of casualty and theft losses is no longer limited to 10% of the Federal Adjusted Gross Income. The calculation has been removed from Schedule A resulting in the removal of lines 21, 22 and 23. The casualty and theft losses are now reported on line 20.

Schedule A (740) – Total Itemized Deductions

Due to the changes to the other sections of the Schedule A, the total lines is found on line 29 and should now equal the amounts from lines 4, 9, 15, 20, 21, 27 and 28.

Schedule A (740-NP) – Total Itemized Deductions

Due to the changes to the other sections of the Schedule A, the total lines is found on line 29 and should now equal the amounts from lines 4, 9, 15, 19, 20, 27 and 28.

Schedule A (740) – Itemized Deductions Limitation

For tax year 2014, the limitation on itemized deductions threshold changed from \$178,150 (\$89,075 if married filing separately on a combined return or filing separate returns) to \$181,150 (\$90,575 if married filing separately on a combined return or filing separate returns). If your Kentucky adjusted gross income is above this threshold then your itemized deductions (excluding medical and dental, investment interest, losses for casualty or theft and gambling losses) will be limited. In general, if the limitation applies, itemized deductions are reduced by the lesser of 3% of the adjusted gross income that exceeds the threshold or 80% of the allowable itemized deductions.

If the taxpayer is itemizing deductions, Part II of Schedule A must be completed if the filing status is Single or married filing jointly and the KY AGI is greater than \$181,150 or the filing status is married filing separately on a combined return or married filing separate returns and the Kentucky AGI is greater than \$90,575.

The only time Schedule A, Part I is completed is if the filing status is married filing separately on a combined return and the KY AGI is less than 181,150.

Schedule A / Schedule ME (740-NP) – Itemized Deductions Limitation

For tax year 2014, the limitation on itemized deductions threshold changed from \$178,150 (\$89,075 if married filing separately on a combined return or filing separate

returns) to \$181,150 (\$90,575 if married filing separately on a combined return or filing separate returns). If your Kentucky adjusted gross income is above this threshold then your itemized deductions (excluding medical and dental, investment interest, losses for casualty or theft and gambling losses) will be limited. In general, if the limitation applies, itemized deductions are reduced by the lesser of 3% of the adjusted gross income that exceeds the threshold or 80% of the allowable itemized deductions.

Schedule A / Schedule ME (740-NP) – Separation of Forms

In tax year 2014, the Schedule A (740-NP) and Schedule ME (740-NP) are being separated. The limitation portion of Schedule A will be page 2 of the Schedule A and Schedule ME will be its own form. A new 1D barcode has been created for page 2 of Schedule A (740-NP). The Schedule ME will retain the same 1D barcode assignment it had in tax year 2013. Please see the 1D Barcode Layout for a complete list of Barcode assignments.

Form 5695-K - Energy Efficiency Products Tax Credit (KRS 141.436)

If you qualified for the Energy Efficiency Products Tax Credit in 2013 and could not utilize your entire approved credit, the balance may be carried forward to apply against your 2014 Kentucky tax liability. Unused amounts are limited to a one-year carry forward period. The amount should be listed on page 2, Part II, line 66 of the Form 5695-K. A Form 5695-K to show the carryover must have been filed in the prior year.

Form 8863-K – Education Tuition Tax Credit

The Form 8863-K has been redesigned due to the adoption of the **Internal Revenue Code (IRC) in effect on Dec. 31, 2013**. The Hope Credit is no longer applicable. The American Opportunity Credit has been added to the form. Please see the form and instructions for additional revision details.

Any unused credit carryforward remaining from the 2008 tax return is no longer eligible for a carryforward on Form 8863K.

Form 8948-K - Preparer Explanation for Not Filing Electronically

Tax preparers that file more than ten individual income tax returns are required to file their client's returns electronically. There are some exceptions to the mandate. The Form 8948-K is used to explain why a particular return is being filed by paper. The form should be attached and mailed with the paper return.

If you feel you have a valid reason to be exempted from this mandate, please provide a letter of explanation and a request for waiver to Audrey Terry.

Electronic Estimate Tax Payments

Taxpayers may schedule up to four equal direct debits of estimate tax payments at the time their state tax return is electronically filed. The scheduled payment dates for the 2015 estimate tax payment period are: April 15, 2015, June 15, 2015, September 15, 2015, and January 15, 2016. Direct debit of estimate tax can be scheduled in addition

to a direct debit of the tax amount due or direct deposit of refund, but the financial institution information (routing number, account number and type of account) must be the same in all the requested transactions. Direct debit of estimate tax may also be scheduled in the absence of a direct deposit of refund or direct debit of tax amount due transaction. To revoke (cancel) a payment, the taxpayer must contact the Kentucky Department of Revenue at (502) 564-4581 no later than 2 business days prior to the payment (debit) date.

The Form 8879-K has been revised to include authorization of the direct debit of estimate tax payments.

Income and Withholding Tax Statements

All Kentucky withholding claimed on the tax return should be supported by an income and withholding tax statement. The following income and withholding tax statements are available as schemas: W-2, W-2G, 1099-R, 1099-G, 1099-INT, 1099-MISC, 1099-OID, 1099-DIV and Form PTE-WH. If the software does not support the income and withholding tax statement, a PDF attached to the electronic submission will be accepted. The submission of a PDF document will delay the processing of the tax return as it will have to be manually reviewed by KDOR staff. Please check with your software company to determine what is supported by the software.

Electronic filing of 40A102

Application for Extension of Time to File Individual Returns for Kentucky (Individual Forms 740 and Form 740-NP only)

Beginning with tax year 2014, taxpayers may electronically file for an extension of time to file their Form 740 or Form 740-NP returns. Taxpayers may also make a request a direct debit transaction for payment of tax due as at the time they file the extension. The electronic applications will be accepted through April 15th. The requested payment date cannot be scheduled past the filing due date of April 15th. Please check with your software provider to determine if the option is available through your software package.

Future Items of Interest

Angel Investor Credit

Effective for taxable years beginning on or after Jan. 1, 2015, HB 445 makes available a nonrefundable personal income tax credit under the Kentucky angel investment credit program to individuals who invest a minimum of \$10,000 in certain Kentucky small businesses with high-growth potential that are engaged in knowledge-based activities, such as bioscience, environmental and energy technology, health and human development, information technology and communications, and materials science and advanced manufacturing, that will further the establishment or expansion of small businesses, create additional jobs, and foster the development of new products and technologies.

Eligibility: A small business is qualified to participate in the program if at the time it requests certification, the business:

- has a net worth of \$10 million or less or net income after federal income taxes for each of the two preceding fiscal years of \$3 million or less;
- is actively and principally engaged in a qualified activity within Kentucky, or will be actively and principally engaged in a qualified activity within the state after the receipt of a qualified investment by a qualified investor;
- has no more than 100 full-time employees;
- has more than 50 percent of its assets, operations, and employees located in Kentucky; and
- has at no time received an aggregate amount of qualified investments that has allowed qualified investors to receive more than \$1 million in angel investor credits.

Individual investors must demonstrate to the KEDFA that the investor:

- is an individual natural person;
- qualifies as an accredited investor under the U.S. Securities and Exchange Commission's Regulation D as of the date the individual investor requests certification;
- does not hold a more than 20 percent ownership interest in, and is not employed by, the qualified small business prior to making the investment;
- is not the parent, spouse, or child of an individual who holds a more than 20 percent ownership interest in, or who is employed by, the qualified small business prior to making the investment; and
- seeks a financial return from the investment in the qualified small business.

The investment must be offered and executed in compliance with applicable state and federal securities laws and regulations. In addition, the investment must be exchanged for consideration in the form of an equity interest in the qualified small business.

Credit amount: The amount of Kentucky angel investment credit is equal to:

- 40 percent of the investment, if the principal place of business of the qualified small business is outside a designated enhanced county; or

- 50 percent of the amount of the investment, if the principal place of business of the qualified small business is in an enhanced incentive county (*i.e.*, certain counties that are designated as economically depressed).

The maximum annual credit that may be awarded to each angel investor is \$200,000. The maximum credit that can be claimed in any taxable year shall not exceed 50 percent of the total credit awarded or transferred to the taxpayer. The credit is subject to an annual cap of \$3 million that is available to all angel investors. The total amount of credits awarded under the angel investment program, together with credits awarded under the Kentucky Investment Fund Act, cannot exceed a lifetime cap of \$40 million.

Carryforward provisions: Unused Kentucky angel investment credits may be carried forward for up to 15 years.

Forfeiture provisions: The angel investment must be made no later than the earlier of:

- 60 days, including weekends and holidays, following the date of credit approval; or
- Dec. 31 of the calendar year of credit approval.

The angel investor must provide proof of the investment to the KEDFA within 20 days, including weekends and holidays, of making the investment. If the investor either fails to make the investment prior to the deadline or fails to provide the required proof of the investment, the award of credit approval is null and void.

Transfer provisions: An angel investment credit may be transferred by a qualified investor to any individual taxpayer who also meets investor qualification requirements. Written notice of the transfer must be provided to the DOR.

Reporting requirements: A qualified small business that has received a qualified investment must file an annual report with the KEDFA by Feb. 1 of the calendar year following the year in which a credit was awarded and each of the four years thereafter. The report must demonstrate that the business continues to meet the original small business qualification requirements. In addition, the report must include the following information:

- new jobs created;
- increased sales or other economic activity conducted;
- the degree of other private investment attracted; and
- any other information requested by the KEDFA.

Recapture provisions: If the business fails to submit a report during any year or fails to satisfy the small business qualification requirements during the reporting period, the full amount or any portion of the credit is subject to recapture by the DOR from the qualified investor that received the credit award or any taxpayer receiving the credit through a valid transfer.

Section 2 - Kentucky Electronic Filing Calendar

Kentucky follows the IRS's lead on the beginning and ending filing dates.

For Taxable Period beginning January 1, 2014, and ending December 31, 2014
(Processing Year 2015)

Begin Federal/State Software Testing for TY2014	December 1, 2014
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Begin Transmitting Returns to IRS/KDOR	January 20, 2015
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Last Day to Transmit Kentucky Returns Electronically for TY2014	TBD
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NOTE: These dates are subject to change at any time.

Section 3 - Electronic Filing Help Desk

E-File Coordinator

Primary Contact

Judy Ritchie, E-File Coordinator
Department of Revenue
Division of Operations
501 High Street, Station 29
Frankfort, Kentucky 40601-2103
Phone: (502) 564-5370
Fax: (502) 564-5809
E-Mail: Judy.Ritchie@ky.gov

Secondary Contact

Jeri Lynn Shuck, Assistant E-File Coordinator
Phone: (502) 564-7933
E-Mail: JerriLynn.Shuck@ky.gov

Technical Support

Primary Contact

Audrey J. Terry, Branch Manager
Department of Revenue
Division of Operations
E-Commerce Branch
501 High Street, Station 22
Frankfort, KY 40601-2103
Phone: (502) 564-7862
Fax: (502) 564-0230
E-Mail: AudreyJ.Terry@ky.gov

Secondary Contact

Richard J. Hill, E-File Analyst
Phone: (502) 564-7926
E-Mail: RichardJ.Hill@ky.gov

Section 4 - Publications

Information used to prepare this document were found in the ***Kentucky Tax Alert*** publication dated July 2014, Vol. 33, No. 4:

<http://revenue.ky.gov/NR/rdonlyres/386A067C-E604-424E-B23F-50A17F9DFDF8/0/KYTaxAlertJuly2014.pdf>

The following publications describe the process of electronic filing and federal/state electronic filing:

Internal Revenue Service Publications

Publication 1345, Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns

Publication 1346, Electronic Return File Specifications for Individual Income Tax Returns

Publication 4164, Modernized e-File Guide for Software Developers & Transmitters

Kentucky Department of Revenue Publications

Publication KY-1345, Kentucky Handbook for Electronic Filers of Individual Income Tax Returns

Publication KY-1346, Electronic Filing Specifications for Individual Income Tax Returns – Software Developer’s Guide

Publication 4164, Information for Fed/State Development of Modernized E-file for Individual Income Tax – Software Developer’s Guide

Forms and publications are also available on the internet at www.revenue.ky.gov

Section 5 - Federal/State Electronic Filing

General Information

Tax preparers and transmitters accepted in the IRS Electronic Filing Program will be able to participate in the Federal/State Electronic Filing Program and be able to file both the federal return and the state return in one transmission to the IRS through MeF. **The software used to transmit the data must be certified by both the IRS and Kentucky Department of Revenue (KDOR).** KDOR will provide a certification letter to all approved software developers. This certification should accompany the final version of the software. The IRS will acknowledge acceptance of the federal data and receipt of the state data packet. The IRS acts as a conduit through which KDOR will retrieve the state data packet for processing.

KDOR will acknowledge receipt of the state data and then process the taxpayer's return. The transmitter should be able to retrieve the Kentucky acknowledgment within three days from the time acknowledgment is received from the IRS.

Who May Participate

Federal/state electronic filing for Kentucky returns is available to all interested parties who have been accepted in the federal electronic filing program. There is no additional application for Kentucky. Please contact software companies directly if you have questions regarding availability of state software packages.

State-Only Filing

Kentucky is accepting state-only returns for the 2014 tax year. State-only filing is a method to file a state return through the current Fed/State system. The type returns that will be eligible for state-only filing are: 1) Previously rejected state e-filed returns and, 2) State returns input separately from a previously filed federal return. **In all transmissions, the federal data must be attached.**

Please consult your software vendor to determine the availability of state-only filing.

Section 6 - Acceptance Process

In order to participate in the Federal/State Electronic Filing Program, participants must apply to the IRS Electronic Filing Program. **An additional application is not required for the Kentucky Department of Revenue.**

Federal Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns, specifies the application process and requirements for federal participation. The IRS definition of the various categories of electronic filers (electronic return originator, transmitter or software developer) will apply for Kentucky electronic filing purposes under the federal/state program.

KDOR will recognize the federal acceptance process for the 2014 tax period. Acceptance into the federal program is automatic acceptance into the Kentucky electronic filing program. No separate application form is necessary for the Kentucky program. However, KDOR will conduct a suitability check on the applicants into the Federal/State Electronic Filing Program and will notify any applicant who is ineligible to participate.

KDOR will use the same EFIN and ETIN assigned by the IRS for the Federal/State Electronic Filing Program.

Software developers are required to test with KDOR prior to distribution of software. Use of untested software will cause Kentucky returns to be rejected.

In addition to software developers, transmitters will be allowed to test with KDOR to ensure they have the ability to retrieve the Kentucky acknowledgment records. Tax preparers and EROs also have the option to test with KDOR but this is not required.

Test material and instructions are posted on the internet at <http://revenue.ky.gov> or can be obtained by contacting the Kentucky Department of Revenue.

Section 7 - Filing an Electronic Return

Composition of an Electronic Return

An electronic return consists of data transmitted electronically to KDOR, using the IRS as a conduit.

Electronic Portion of Return

The following forms and schedules can be transmitted electronically and are considered the electronic portion of the return:

- All federal individual income tax forms and schedules allowed by IRS Publication 1345, Section 18.
- Form 740, Kentucky Individual Income Tax Return.*
- Form 740-NP, Kentucky Individual Income Tax Return – Nonresident and Part-Year Resident Return.
- Schedule A, Kentucky Itemized Deductions.
- Schedule A (Form 740-NP), Kentucky Itemized Deductions.
- Schedule ME (Form 740-NP), Moving Expense and Reimbursement.
- Schedule J, Kentucky Farm Income Averaging.
- Schedule KNOL, Kentucky Net Operating Loss.
- Schedule M, Kentucky Federal Adjusted Gross Income Modifications.
- Schedule P, Kentucky Pension Income Exclusion.
- Form 2210-K, Underpayment of Estimated Tax by Individuals.
- Form 4562K, Kentucky Depreciation & Amortization.
- Form 4972K, Kentucky Tax on Lump-Sum Distributions.
- Form 5695K, Kentucky Energy Efficiency Products Tax Credits.
- Form 8582K, Kentucky Passive Activity Loss Limitations.
- Form 8863K, Kentucky Education Tuition Tax Credit.
- Worksheet A, Tax Paid to Other State.

- Worksheet C, Limited Liability Entity Tax Credit.
- Wage and Tax Statements – W2, W2-G, 1099-DIV, 1099-G, 1099-INT, 1099-MISC, 1099-OID, 1099-R and Form PTE-WH are all supported in the schema
- Form 40A102 – Application for Extension of Time to File Individual, General Partnership, and Fiduciary Income Tax Returns for Kentucky (Accepted for Individual Form 740 and Form 740-NP only)

*740-EZ is filed through the Form 740 format.

Software packages may or may not support all forms available for Kentucky electronic filing. **Check your software package for forms availability.** Any electronic tax returns submitted without all required forms will be rejected. See the following website for a list of rejection codes: <http://revenue.ky.gov/sdi/mef.htm>

Non-electronic Portion of Return

The non-electronic portion of the return consists of the following:

- Form 8879-K, Kentucky Individual Income Tax Declaration for Electronic Filing.
- Supporting schedules and documents requiring signatures. (Neither the federal nor state return is required to be attached to Form 8879-K since they are sent electronically. However, if someone other than the transmitter prepared the return, the preparer should sign Form 8879-K or the transmitter should attach the paper return with the preparer's original signature to the Form 8879-K).
- Any other informational documents that the taxpayer voluntarily includes with the return as supporting material.

Guidelines for Form 8879-K/Form 40A102

Note: Form 40A102 and Form 8879-K are the only forms that contains direct deposit and/or direct debit information and should be printed for any taxpayer that selects these options.

Form 8879-K

- Fed/State E-filed returns with a federal PIN – For returns filed via this method, an 8879-K is **not** required. The use of the federal PIN meets signature requirements for the Kentucky return.
- Fed/State E-filed returns without a federal PIN – For returns filed via this method, an 8879-K is required. **This document does not need to be mailed to KDOR at the time of the filing.** It may be requested at a later date. EROs must retain them for a period of three years. State copies of the wage statements, supporting schedules, documents requiring signatures and other informational

documents should be attached to the 8879-K and be retained by the ERO for a period of three years.

- Online Filing – For returns filed via this method, an 8879-K is required. This document does **not** need to be mailed to KDOR. Taxpayers must retain the form for a period of three years.

Form 40A102

- A copy of the Form 40A102 should be signed and retained by the taxpayer and/or tax preparer if the state extension is being filed electronically. It may be requested at a later date. The retention period of the Form 40A102 is 5 years, the same as the Individual Income Tax Return.

Exclusions from Electronic Filing

In addition to the returns excluded from federal electronic filing listed in IRS Publication 1345 for tax year 2014 (2015 filing season), the following are specific Kentucky forms which are also excluded:

- Form 740-X, Amended Kentucky Individual Income Tax Return
- Prior Year Returns.
- Form 740-NP-R, Nonresident--Reciprocal State.
- Fiscal Year Returns.
- Injured Spouse Declaration.
- Fiduciary Returns.

Section 8 - Transmitting the Kentucky Electronic Return

Kentucky returns included in the Federal/State Electronic Filing Program will be transmitted to the IRS, along with the federal return. Transmissions shall be accomplished according to IRS procedures.

Kentucky will continue to accept state-only returns for the 2014 tax year. Please consult your software vendor to determine the availability of state-only filing.

Once the IRS has provided an acknowledgment to the ERO, the state data segment will be made available to KDOR for retrieval within 24 business hours. **KDOR will not receive any state data associated with a rejected federal return.**

The IRS acknowledges only that it received the state data for both Fed/State and state-only transmissions. The IRS acknowledgment is not an indication that the KDOR has “accepted” your state return. You must receive the Kentucky acknowledgment to be assured your state return has been accepted. Contact KDOR if you receive a federal acknowledgment but no state acknowledgment within three business days from the time acknowledgment is received from the IRS.

Acknowledgment of Receipt and Acceptance/Rejection of the Kentucky Return

The Kentucky receipt and acknowledgment system is designed to inform transmitters that the Kentucky return has been received and either accepted or rejected by the KDOR. Kentucky’s acknowledgment system is handled through the IRS. We will be using the same format that is described by the IRS for all acknowledgements.

Transmitters are encouraged to retrieve their acknowledgment records regularly. Transmitters should notify their EROs of the return’s acceptance within two working days after obtaining the acknowledgment. EROs are instructed to wait until they receive the acknowledgment record before the corresponding Form 8879-K is held for the retention period. (See Section 9).

Upon receipt of the Kentucky submission from the IRS, KDOR will generate an acknowledgment record to the IRS for retrieval by transmitters. Two acknowledgment records will be provided for each submission. The first is the acknowledgement of the receipt of the submission and is completed immediately upon the retrieval of the submission.

The second is an acceptance/rejection acknowledgement. The system will provide codes of “A” for accepted, “R” for rejected. The records with acknowledgement codes of rejected will not be accepted for processing and a reason for the rejection will be provided. The acknowledgement code of “A” means that the return has been accepted for processing by KDOR but not necessarily that the return is error free.

NOTE: All transmitters will be allowed to perform state testing to ensure they can access and retrieve the state acknowledgment record.

Non-receipt of Kentucky Acknowledgment Record

If any of the following error conditions occur, please follow the resolution process indicated below.

- Kentucky acknowledgment records are received for some, but not all returns filed on a given date.
- IRS acknowledgment records were received more than four working days ago and no Kentucky acknowledgment records have been received.
- A transmission day is skipped (i.e., received acknowledgment records for a Monday and a Wednesday but none for a Tuesday transmission).

In all instances, be sure you have received an IRS acknowledgment record before you contact the Department of Revenue.

Resolution Process

To check the status of a Kentucky acknowledgment record, EROs must contact KDOR's Electronic Filing Helpdesk. Have the submission id, primary Social Security number and date of transmission available when making the call.

If the return is not eligible for state-only filing, you may be required to file a paper return. The paper return should include a printout of the return (including a copy of the federal return and all supporting schedules) and copies of all income/tax statements (Forms W-2, W-2G, 1099-R, etc.).

Paper returns to replace rejected electronic returns should be sent to the following address based on the type of return:

Refund/Other Returns

Kentucky Department of Revenue
Frankfort, KY 40618-0006

Pay Returns

Kentucky Department of Revenue
Frankfort, KY 40619-0008

Changes to Electronic Returns

After electronic returns are transmitted, they cannot be recalled or intercepted in process. If the electronic filer or taxpayer wishes to change any entries after a return has been accepted, an amended return (Form 740-X) must be filed through the normal paper filing process. No action should be taken to change the computation between the date transmitted and the date the KDOR acknowledges the return.

Section 9 - Form 8879-K - Kentucky Individual Income Tax Declaration for Electronic Filing

NOTE: Due to federal electronic banking regulations, questions 10a or 10b must be answered on Form 8879-K if the taxpayer elects to receive a refund via direct deposit (Question 10a) or pay via direct debit (Question 10b).

- If the taxpayer elects a direct deposit of their refund and answers yes on question 10a, a paper check will be issued.
- If a taxpayer elects to pay via direct debit and answers yes on question 10b, KDOR will notify the taxpayer that they must submit payment via check or money order, or pay the amount due via credit card by visiting our website.

Once revenue systems have been updated to handle additional information needed for out-of-country banking transactions, this limitation will be removed.

Form 8879-K is the signature portion of the return. If required, it must be completed and signed by all appropriate parties before the return is transmitted electronically. It also serves to transmit the taxpayer's banking information for direct deposits and direct debits.

Form 8879-K:

1. Authenticates the return;
2. Authorizes the ERO to file the return electronically on behalf of the taxpayer; and
3. Authorizes KDOR to inform the ERO whether a taxpayer's return has been accepted.

Returns requiring forms or schedules excluded in Section 6 must be filed in paper format. Electronic filers must not use Form 8879-K to submit forms or schedules which are excluded (see Section 7) from electronic filing.

Form 8879-K authorizes the KDOR to discuss tax return information with the ERO.

Use only the official Form 8879-K or an approved substitute form that duplicates the official form in format, language, content and size. Photocopies are acceptable.

The following is the sequence of events in the handling of Form 8879-K:

- An ERO prepares the return and computes the taxes based on the information the taxpayer provides or accepts an already prepared tax return for the purpose of transmitting it electronically.

- After the return has been prepared and before it is transmitted, the taxpayer must verify the information on the return and sign Form 8879-K. The signature of both taxpayers is required on returns filed “Married, filing joint return” or “Married, filing separately on a combined return.”
- A copy of the prepared return must be provided to the taxpayer.

Form 8879-K is completed for the electronic tax return for the purposes of taxpayer verification and signature. See Section 7 for details on when to use the 8879-K. A blank Form 8879-K is the same as a blank tax return. Practitioners are prohibited from allowing taxpayers to sign a blank tax return. However, it is permissible to have the taxpayer review the completed tax return on the display terminal. The taxpayer should also review the completed Form 8879-K before signing it.

The Submission Identification Number (Submission ID) assigned to the taxpayer’s federal return will also be used for the Kentucky return. This Submission ID should be entered on Form 8879-K. If the electronic return is rejected by the IRS and a new Submission ID is assigned, you must use the Submission ID accepted by the IRS on the Kentucky electronic return and Form 8879-K.

Following the new guidelines for Form 8879-K (see Section 7), the ERO is required to retain this form for a period of three years.

If requested by the KDOR, the ERO must provide the department with a copy of the Form 8879-K or a new Form 8879-K within five days of the department’s request for the form.

Section 10 - Refund Options for Electronic Filers

Taxpayers may elect to have their overpayments applied to their next tax year's estimated tax, mailed to them in the form of a refund check, or deposited directly into a bank account. If direct deposit is elected, the same verification procedures outlined in IRS Publication 1345 must be followed. **Direct deposit is not an option for the Form 740-NP filer.**

Taxpayers' Kentucky refunds do not have to be direct deposited in the same bank account as their federal refunds.

KDOR's acknowledgment of the electronic return will not indicate whether the refund will be direct deposited.

Some items which could cause KDOR to deny a direct deposit request:

- All/part of the overpayment is applied to the taxpayer's delinquent Kentucky taxes.
- All/part of the overpayment is applied to the taxpayer's debts to other state agencies and/or the IRS.
- The amount of the refund is adjusted by the tax processing system.
- An invalid account number or bank routing number is submitted.
- Form 740-NP filed.

The taxpayer may determine the reason for the conversion by calling the Department of Revenue's Taxpayer Assistance Section at (502) 564-4581 between 8:00 a.m. and 5:00 p.m., Monday through Friday, Eastern Standard Time.

Please verify all banking information before transmitting returns.

Section 11 – Refund Information

Refund Delays

It is anticipated that refunds from Kentucky returns filed in the Federal/State Electronic Filing Program will be issued within two weeks. The average amount of time to issue a refund during the 2014 processing year was 7 to 10 days. However, the following conditions may delay refunds and/or change refund amounts on electronically filed returns:

- The taxpayer owes delinquent Kentucky taxes.
- The taxpayer owes a debt to another state agency or to the IRS.
- The estimated tax payments claimed on the return do not match the estimated tax payments recorded on KDOR's estimated tax file.
- The refund amount is adjusted when the electronic return is processed.
- Common problems are addresses containing a rural route. While the KDOR recognizes that some rural routes still exist in Kentucky, most rural routes have been eliminated and assigned a street name with a house number. Preparers should verify that the rural route is still a valid address before utilizing this address on the taxpayer's return. Another common problem is an address that contains both a post office box number and a street address. Please enter the street name and house number on the first address line and enter the post office box number on the second address line.

Refund Inquiries

Check the status of your refund by accessing "Where's My Refund?" at the following link <http://www.revenue.ky.gov/refund.htm> or by calling our automated line at (502) 564-1600 (Toll). These systems are available 24 hours, 7 days a week, and are updated nightly.

The following information from your return will be required:

- Your Social Security number shown on the return.
- The **exact** whole-dollar amount to be refunded to you.

Section 12 – Payment Information

Payment of Balance Due Amounts

The taxpayer is responsible for paying the amount due the KDOR on or before April 15, 2014 to avoid penalties and interest. Details of each payment option are listed below.

- Kentucky will again be accepting direct debit payments on electronically filed tax due Form 740 and Form 740-NP returns. The payment **must** be the amount due as indicated on the return. A date up to April 15, 2015 can be elected for the payment to be debited from the specified account. After April 15, the payment will be debited when the return has completed processing. Please use the transmitting date as the direct debit date so the return will not be rejected for an invalid date. The direct debit account information can be found on the Form 8879-K.
 - **Note: Please allow up to two weeks for your debit payment to be withdrawn from your account. Payments with a withdrawal date of April 15, 2015, will be considered timely when processed.**
- The taxpayer may submit payment by mailing Form 740-V with their payment. Form 740-V is a payment coupon made available to EROs. If the ERO's software package has the capability of printing a document in the same format as the Form 740-V, this can also be used. **A paper copy of the electronic return should not be submitted with the 740-V. This delays processing of the electronic voucher and payment.**
 - Payments made with Form 740-V should be mailed to:

Kentucky Department of Revenue
Frankfort, KY 40620-0011

- Taxpayers can also pay their 2014 Kentucky individual income tax by MasterCard or Visa credit card through April 15, 2015. Access the Department of Revenue's home page at (www.revenue.ky.gov) to make credit card payments and electronic check payments over the Internet. Click on the *KY E-Tax* logo then select E-Payments-Credit Cards and ACH Debits link. If the taxpayer does not have access to the Internet, you may call the KDOR at (502) 564-4581.

A 'tax due notice' will not be sent to the taxpayer prior to the April 15 filing deadline. The taxpayer should submit payment using one of the payment options listed above prior to April 15, 2014 to avoid penalties and interest.

Electronic Estimate Tax Payments

Taxpayers may schedule up to four equal direct debit of estimate tax at the time their state tax return is electronically filed. The scheduled payment dates for the 2015 estimate tax payment period are April 15, 2015, June 15, 2015, September 15, 2015

and January 15, 2016. Direct debit of estimate tax can be scheduled in addition to a direct debit of the tax amount due or direct deposit of refund, but the financial institution information (routing number, account number and type of account) must be the same in all the requested transactions. Direct debit of estimate tax may also be scheduled in the absence of a direct deposit of refund or direct debit of tax amount due transaction. To revoke (cancel) a payment, the taxpayer must contact the Kentucky Department of Revenue at (502) 564-4581 no later than 2 business days prior to the payment (debit) date.

Section 13 – ERO Information

What Electronic Return Originators Must Provide to the Taxpayer

The ERO must furnish the taxpayer with documentation of all completed Kentucky forms and schedules filed for the taxpayer. This material should be provided to taxpayers at the time they sign Form 8879-K or use one of the electronic pin signature methods made available by the IRS.

The ERO must also provide the taxpayer with a copy of the following material filed with KDOR:

1. The completed Form 8879-K, Kentucky Individual Income Tax Declaration for Electronic Filing, if required.
2. Other documents containing required signatures.
3. Any other documents which are not Kentucky forms or schedules.

In addition, the ERO should advise the taxpayer to retain copies of the following material:

1. Income/Tax statements (Form W-2, W-2G, 1099-R, etc).
2. Any other documents, not required by KDOR, which the taxpayer voluntarily includes as supporting material.
3. The signed Form 8879-K, if required.

Immediately upon learning that a return was not accepted by KDOR, the ERO must advise the taxpayer that their return was not accepted, **(if the return is not eligible for state-only filing)** and that a paper return must be filed. The taxpayer should allow up to twelve weeks for any Kentucky refund to be issued on a paper return.

If an electronically filed return was acknowledged as accepted by the KDOR, the ERO should advise the taxpayer to wait three weeks from the acknowledgment date before making an inquiry about his/her refund.

Refund Inquiries

Check the status of your refund by accessing “Where’s My Refund?” at the following link <http://www.revenue.ky.gov/refund.htm> or by calling our automated line at (502) 564-1600 (Toll). These systems are available 24 hours, 7 days a week, and are updated nightly.

The following information from your return will be required:

- Your Social Security number shown on the return.

- The **exact** whole-dollar amount to be refunded to you.

It is the responsibility of the electronic return originator to follow all guidelines in IRS Publication 1345.

Section 14 - Penalties

Penalties for Disclosure or Use of Information

Guidelines outlined in IRS Revenue Procedure 94-63 and 94-63A should be followed as well as Kentucky Revised Statute 131.190.

Penalties for Late Filing, Late Payment and Fraudulent Returns

This provision provides due notice that all additions to tax, penalties, and criminal provisions applicable to paper filers are also applicable to electronic filers. Specifically, penalties and interest for late filing, late payment and underpayment of estimate tax will be assessed.

Penalties will be assessed against any person filing an incomplete or misleading return. Additionally, any person who willfully subscribes or presents a fraudulent return will be subject to prosecution and penalties. Other criminal provisions will be applicable to the extent that a person attempts to commit forgery and falsify signatures on any electronic filing form, check or direct deposit form.

Section 15 – Inquiries

Taxpayer Assistance and Refund Inquiry

Taxpayers may confirm acknowledgment of their Kentucky returns with their practitioner or transmitter and are advised to wait three weeks from the transmission date before calling or writing KDOR to inquire about their refund status.

If a taxpayer and/or spouse owes money to KDOR, other state agency, IRS, etc., the amount may be deducted from the refund. This debt will delay processing of the taxpayer's refund because all claims against the refund must be resolved before a refund check can be processed. Electronically filed returns experiencing errors in KDOR income tax system will be given first priority for resolution.

Refund Inquiries for Taxpayers

Check the status of your refund by accessing “Where’s My Refund?” at the following link <http://www.revenue.ky.gov/refund.htm> or by calling our automated line at (502) 564-1600 (Toll). These systems are available 24 hours, 7 days a week, and are updated nightly.

The following information from your return will be required:

- Your Social Security number shown on the return.
- The **exact** whole-dollar amount to be refunded to you.

Taxpayers needing assistance to resolve any adjustments on returns or problems after processing should contact the Taxpayer Assistance Branch at (502) 564-4581.

Refund Inquiries for Transmitters, Preparers and EROs

The KDOR will operate a helpdesk for electronic transmitters/preparers who are experiencing problems. The help desk number is (502) 564-5370 and the operating hours will be Monday through Friday, 8:30 a.m. to 4:30 p.m., except for holidays. The helpdesk number is to be used by electronic transmitter/preparers only.

APPENDIX A

MeF Rejection Codes

MeF Rejection Codes and Explanations for Tax Year 2014 can be found on the following webpage: <http://revenue.ky.gov/sdi/mef.htm>

APPENDIX B

Sample Addresses

Prefix Names:

EXAMPLE:	O'Brien Van Winkle Mc Donald	KEY:	Obrien Vanwinkle McDonald
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Street:

EXAMPLE:	120 South Fourth Street
KEY:	120 S Fourth Street

EXAMPLE:	23 East 4th Street
KEY:	23 E 4th St

EXAMPLE:	2466 1/2 West Highway North
KEY:	2466 West Hwy N

EXAMPLE:	C/O George Smith
KEY:	CO George Smith

EXAMPLE:	C/O Jones Mfg Co
KEY:	Jones Mfg Co

EXAMPLE:	C/O 123 Main St
KEY:	123 Main St

EXAMPLE:	12 North St Apt #4
KEY:	12 North St Apt 4

EXAMPLE:	34 Hopewell-Bohon Rd
KEY:	34 Hopewell Bohon Rd

EXAMPLE:	543 Lovelace-Florence Station Rd
KEY:	543 Lovelace Florence Sta Rd